

October 15, 2018

Frank Lourenco  
Property Claims Specialist  
Zenith Insurance Company  
PO Box 619083  
Roseville, CA 95661-9083

Re: Insured: Philip Verwey Dairy Inc.  
Loss Location: 19765 13th Avenue, Hanford, California  
Date of Loss: April 6, 2018; April 11, 2018  
Claim Number: [REDACTED]

Dear Mr. Lourenco:

Per your request, we evaluated the insured's income loss. Our analysis was limited to those books and records that were pertinent to establishing the extent of loss. Because our analysis is not comprehensive in nature, it is subject to the accuracy of the information provided by the insured. This report and any other information provided by us are furnished solely for the purpose of the adjustment of this claim and are subject to the interpretation of the insurance coverage, which does not necessarily conform to generally accepted accounting principles.

### **Background**

On April 6, 2018 and April 11, 2018, power surges damaged the insured's equipment resulting in lost milk production. As a result of the power surges, manual labor was required for milking activities that are normally automated. The dairy farm was also not able to cool the barns following the power surges. Based on our discussions, we understand that the insured is subject to the following policy limits:

Policy limit - Date of loss 04/06/18	\$100,000
Policy limit - Date of loss 04/11/18	\$100,000
Total Policy Limit	<u>\$200,000</u>

### **HSNO's Conclusion**

As shown on Schedule 1, lost income during April and May 2018 exceeds the combined policy limits of \$200,000. However, the information provided does not allow us to separately calculate lost income due to the power surges on April 6<sup>th</sup> v. April 11<sup>th</sup>. Furthermore, we are not able to

confirm that the second power surge resulted in additional property damage that increased the total loss of income. The insured did not provide milk pounds produced and the number of cows by day needed to potentially separate the two events.

The insured believes the closest comparison for production would be the month prior to the incident since diet affects milk production. However, weather and stress also affect production. The temperatures in April and May 2018 were 10 to 15 degrees warmer than March 2018, but the power surges damaged the fans. The fans were repaired by mid-May 2018.

As instructed by the adjuster, we calculate this loss up to the policy limit. Based on the information provided, production per day would have exceeded the 70.1 pounds per day per cow necessary for the income losses to exceed the policy limit of \$100,000 per occurrence. To calculate the actual loss of income beyond the policy limit, we would need additional information regarding changes in diet and any other events that would have affected production. We would also need more financial data than the 10 months provided.

We attach the following to this report:

- Schedule 1 – Summary
- Schedule 2 – Milk Sales
- Schedule 3 – Income Statements

If you have any questions or wish to discuss this matter, please feel free to contact me in our Chicago office at 312-204-8850.

Very truly yours,

**HAGEN, STREIFF, NEWTON & OSHIRO, ACCOUNTANTS, PC**

Todd J. Roeder, CPA  
Partner

Insured: Philip Verwey Dairy, Inc.  
Date of Loss: April 6, 2018; April 11, 2018  
Claim Numbers: [REDACTED]

Schedule 1

### Summary

Description	HSNO Calculated	
	April 2018	May 2018
Minimum projected pounds per cow per day (Note A)	70.10	70.10
Less: actual pounds per cow per day	67.25	67.83
Lost pounds per cow per day	2.85	2.27
Total milk cows	9,375	9,492
Total lost milk pounds per day	26,719	21,547
Production days	30	31
Total lost milk pounds	801,570	667,957
Net selling price per CWT	\$13.90	\$14.16
<b>Lost milk sales (Note A)</b>	<b>\$111,418</b>	<b>\$94,583</b>
Policy limit - Date of loss 04/06/18	\$100,000	
Policy limit - Date of loss 04/11/18	\$100,000	
<b>Total Policy Limit</b>	<b>\$200,000</b>	<b>Note A</b>

#### Note A:

The insured believes the closest comparison for production would be the month prior to the incident since diet affects milk production. However, weather and stress also affect production. The temperatures in April and May 2018 were 10 to 15 degrees warmer than March 2018, but the power surge damaged the fans. The fans were repaired by mid-May 2018. As instructed by the adjuster, we calculate this loss up to the policy limit. Based on the information provided, production per day would have exceeded the 70.1 pounds per day per cow necessary for the income losses to exceed the policy limit of \$100,000 per occurrence. To calculate the actual loss of income beyond the policy limit, we would need additional information regarding changes in diet and any other events that would have affected production. We would also need more financial data than the 10 months provided.

Insured: Philip Verwey Dairy, Inc.  
Date of Loss: April 6, 2018; April 11, 2018  
Claim Numbers: [REDACTED]

Milk Sales

Description	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Production days	31	28	31	30	31	31	28	31	30	31
Average Temperature (°F)	48.1	53.1	58.2	62.6	70.2	50.7	51.3	55.1	64.5	69.8
Average Temperature (°F) in April and May					66.4					67.2
Temperature average increase in April and May v. March					14.1%					21.9%
Farm 2:										
Pounds of milk sold	10,359,095	9,188,370	9,957,399	9,684,286	10,006,220	12,135,800	11,176,040	11,915,640	10,584,740	11,063,500
Net sales	\$1,672,364.06	\$1,453,344.78	\$1,440,910.02	\$1,368,437.41	\$1,563,439.87	\$1,667,107.09	\$1,476,987.91	\$1,566,879.99	\$1,426,132.38	\$1,560,584.40
Net per CWT	\$16.14	\$15.82	\$14.47	\$14.13	\$15.62	\$13.74	\$13.22	\$13.15	\$13.47	\$14.11
Farm 3:										
Pounds of milk sold	10,559,300	9,878,460	10,638,780	10,386,080	10,417,574	8,685,940	7,736,060	9,135,460	8,330,240	8,895,280
Net sales	\$1,784,070.75	\$1,620,235.25	\$1,606,558.24	\$1,530,901.68	\$1,594,429.51	\$1,258,771.68	\$1,080,542.55	\$1,267,845.20	\$1,203,378.11	\$1,264,748.53
Net per CWT	\$16.90	\$16.40	\$15.10	\$14.74	\$15.31	\$14.49	\$13.97	\$13.88	\$14.45	\$14.22
Total pounds of milk sold	20,918,395	19,066,830	20,596,179	20,070,366	20,423,794	20,821,740	18,912,100	21,051,100	18,914,980	19,958,780
Total net sales	\$3,456,434.81	\$3,073,580.03	\$3,047,468.26	\$2,899,339.09	\$3,157,869.38	\$2,925,878.77	\$2,557,530.46	\$2,834,725.19	\$2,629,510.49	\$2,825,332.93
Average net price per CWT	\$16.52	\$16.12	\$14.80	\$14.45	\$15.46	\$14.05	\$13.52	\$13.47	\$13.90	\$14.16
Total milk cows	8,671	8,449	8,703	9,013	9,021	9,307	9,372	9,280	9,375	9,492
Pounds of milk per cow	2,412.45	2,256.70	2,366.56	2,226.82	2,264.03	2,237.21	2,017.94	2,268.44	2,017.60	2,102.69
Pounds of milk per cow per day	77.82	80.60	76.34	74.23	73.03	72.17	72.07	73.18	67.25	67.83
Average pounds of milk per cow per day in April and May					73.63					67.54
Average decrease in April and May v. March					-3.5%					-7.7%

Income Statements

Description	Apr-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	
Days	30	31	28	31	30	31	31	28	31	30	31	
Milk sales by day	\$ 81,688	\$ 107,938	\$ 103,483	\$ 92,691	\$ 91,515	\$ 95,415	\$ 87,932	\$ 84,394	\$ 85,112	\$ 81,121	\$ 84,688	
Milk Sales	\$ 2,450,626.85	\$ 3,346,089.53	\$ 2,897,535.83	\$ 2,873,435.81	\$ 2,745,440.66	\$ 2,957,869.38	\$ 2,725,878.77	\$ 2,363,042.46	\$ 2,638,469.19	\$ 2,433,626.11	\$ 2,625,332.93	
Patronage Dividend				\$ 508,822.04					\$ 230,565.12			
Reimbursed Expenses	1,754.95	3,833.08	212,923.63	4,679.32	24,329.49	29,861.30	2,766.39	27,738.08	5,931.66	4,810.41	15,103.12	
Reimbursed Pump			29,400.00									
Calf Sales	27,081.00	23,980.00	8,934.00	14,200.00	28,049.00	39,064.00						
Livestock Sales	136,799.33	311,803.40	397,012.25	114,468.81	303,694.80	348,821.25	316,332.28	310,053.18	370,791.47	370,791.47	282,247.46	
Sales - Other								18,283.72				
Uncategorized Income				187.86		2,540.00						
Total Revenue	2,616,262.13	3,685,706.01	3,545,805.71	3,515,793.84	3,101,513.95	3,378,155.93	3,044,977.44	2,719,117.44	3,245,757.44	2,809,227.99	2,922,683.51	
Bank Service Charges												525.00
Breeding Service	21,700.00	21,888.00	30,026.00	6,780.00	113,060.00	6,400.00	6,500.00	6,500.00	42,380.00	42,380.00	6,500.00	
Calf Raising	121,140.34	164,118.25	139,281.80	124,404.17	116,231.93	102,075.64	175,339.94	154,751.60	158,395.86	129,014.27	114,809.11	
Chemicals	43,168.41	26,273.12				33,414.29	20,000.00		223,644.02	223,644.02		
Cleaning			105.00									500.00
Consulting		-			11,946.00	52,812.50	26,350.00	12,829.75		12,000.00	184,280.00	
Cow Hauling	1,644.00	3,850.00	4,050.00	4,950.00		10,080.00	5,810.00	6,505.00		13,040.00	7,220.00	
Dairy Nutrition Work	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00	12,000.00					
Deadstock Hauling	600.00	580.00	520.00	670.00	700.00	700.00	3,290.00	2,692.00	2,590.00		3,660.00	
Dues & Subscriptions	2,500.00	2,500.00				2,500.00				2,500.00		
Feed & Grain	1,550,473.79	1,672,981.32	1,334,581.66	1,461,809.66	1,267,417.40	1,578,480.44	236,262.05	924,112.30	1,025,300.06	1,449,616.77	1,620,720.17	
Fertilizers	20,000.00						19,785.65			65,000.00		
Fuel	13,785.56	53,876.06	32,345.53	40,341.04	15,126.06	9,919.15	12,890.56	24,754.12	26,619.30	48,584.98	25,781.94	
Hay Purchases	16,651.50	58,212.90	26,083.85	67,965.00	38,224.00	70,727.35		27,837.60	138,245.15	40,309.40	178,699.06	
Hoof Trimming	2,348.00	1,174.00			1,174.00	1,174.00	3,522.00	1,174.00		1,174.00		
Work Comp Insurance	25,282.06	29,491.39	29,839.41	27,700.17	30,991.08	31,121.80	41,956.26	44,213.04	39,731.91	43,475.31	42,408.92	
Insurance - Other	6,300.20	18,632.34	6,919.03	5,589.48	6,417.50	6,673.29		7,182.71	7,387.28	7,327.66	7,325.91	
Interest Expense	29,017.20	133,538.60	104,752.01	102,438.86	38,136.41	118,720.85	143,526.59	134,219.22	142,344.44	36,158.48	143,892.39	
Irrigation							4,886.00	111,238.92	72,619.47			
Landscaping		2,500.00	2,500.00	2,580.43	2,500.00	2,500.00	2,500.00	2,589.00	2,500.00	2,500.00	2,500.00	
Licenses & Permits	3,815.00	1,272.00	1,188.10	1,815.33		4,773.00	491.00	3,414.00	530.00	10,702.00	2.00	

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Income Statements

Description	Apr-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Machine Hire	52,852.37	122,030.49		120,118.91		344,547.74			161,150.48	1,652.10	
Mileage Reimbursement							985.47	627.84	683.54	849.00	1,556.52
Milk Hauling	36,916.17	36,652.97	34,486.04	39,683.03	5,460.00	7,475.00	7,930.00	9,555.00	8,580.00	10,660.00	8,450.00
Promotion	41,096.72	41,884.00	38,240.82	41,257.25	22,755.59	44,784.89	44,146.02	40,135.76	44,623.94		43,931.58
Office Supplies									120.09		
Payroll Expenses	22,837.06	36,357.33	28,933.77	25,884.48	25,352.01	26,213.87	41,325.61	32,455.82	28,126.09	27,021.30	28,991.96
Professional Fees	3,081.50	2,000.00	12,150.00	2,110.00	2,234.52	2,000.00	12,820.34	22,066.13	23,850.00	10,875.00	9,441.50
Reimbursed Farm Expense										118.27	
Rent						1,276.34					
Equipment Repairs	4,729.41	11,162.04	51,164.25	6,491.76	10,694.99	5,916.89	39,587.55	7,983.09	75,629.25	121,171.71	22,286.90
Farming Repairs								1,136.89			
Repairs - Other	128,057.80	289,083.08	48,866.52	159,871.30	27,612.82	11,151.60	56,626.75	83,718.43	120,695.36	98,184.74	62,217.38
Semen										16,000.00	
Silage Purchase	130,917.14			121,315.10	163,895.10					273,463.73	87,430.94
Spraying - Herbicides											1,761.72
Supplies	4,226.10	10,377.23	7,573.91	6,568.49	13,693.47	11,641.33	10,944.40	10,981.06	7,037.06	281,186.66	25,211.89
Taxes - Other											2,450.00
Taxes - Property			54,555.20	108,248.47				54,999.67	122,544.98		
Taxes - State							25.00				
Telephone	129.95	509.65	829.09	539.42	822.55	742.83	834.81	784.39	774.41	774.41	1,402.04
Testing	9,909.96	9,165.34	9,024.17	8,936.77	9,074.96	18,528.72	9,652.94	9,700.08	9,466.87		10,377.20
Travel & Ent	131.09	964.73	919.36	5,047.74	5,252.73		2,123.74	3,127.57	948.94	948.94	1,661.93
Trimming		3,500.00									
Utilities	121,981.79	5,784.75	8,558.67	6,677.18	178,883.12	3,381.07	105,041.80	107,688.76	105,125.94	387,755.65	1,574.25
Vet Medicine	41,146.89	69,254.62	105,125.97	56,093.50	41,136.14	7,411.55	7,254.89	83,924.51	53,344.51	50,882.01	6,471.20
Wages	271,033.03	295,343.62	267,275.73	303,939.55	300,917.12	313,687.80	346,915.73	321,150.61	340,766.96	331,741.51	353,723.34
Total Expenses	2,739,473.04	3,136,957.83	2,391,895.89	2,871,827.09	2,495,123.79	2,829,417.65	1,381,325.10	2,254,048.87	2,985,755.91	3,740,711.92	3,007,764.85
Net Income	(123,210.91)	548,748.18	1,153,909.82	643,966.75	606,390.16	548,738.28	1,663,652.34	465,068.57	260,001.53	(931,483.93)	(85,081.34)
Promotion excluded from exp.	41,096.72				22,755.59						
NI per insured's statement	(82,114.19)				629,145.75						

Note: Milk sales on the income statements differ \$200K from the Dairy Farmers of America statements due a loan related deduction.